

KEPPEL OPP'N EXH. 129

From: Jose Magela Bernardes </O=FIRST ORGANIZATION/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=JOSE MAGELA BERNARDES45B>
To: Kevin Lowder; Marcel Abe; Gabriel Meira
Sent: 1/20/2015 5:51:20 AM
Subject: Re: Offshore Drilling - Update on SETE financing and possibility to charter rigs from others

Sete information leaks are the norm, unfortunately. Too many stakeholders.

From: Kevin Lowder <Kevin.Lowder@eigpartners.com>
Sent: Jan 19, 2015 4:16 PM
To: Marcel Abe <Marcel.Abe@eigpartners.com>; Jose Magela Bernardes; Gabriel Meira
Subject: FW: Offshore Drilling - Update on SETE financing and possibility to charter rigs from others

FYI. Curious how "right" you think the public markets follow this. Guys that follow international drilling contractors really look at Sete as the swing factor for UDW charters globally (i.e. by how much/by when will Sete rigs displace the international rig market)

From: Brian McShane [mailto:BMcShane@encompasscap.com]
Sent: Monday, January 19, 2015 2:39 PM
To: Kevin Lowder
Subject: Fwd: Offshore Drilling - Update on SETE financing and possibility to charter rigs from others

This guy is by far the best sell side analyst on offshore rigs fyi.

FaceTime catch up later today?

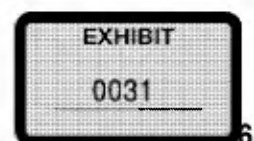
Begin forwarded message:

From: Martin Huseby Karlsen - DNB Markets <martin.huseby.karlsen@dnb.no>
Date: January 19, 2015 at 6:39:25 AM CST
To: <bmcshane@encompasscap.com>
Subject: Offshore Drilling - Update on SETE financing and possibility to charter rigs from others
Reply-To: <martin.huseby.karlsen@dnb.no>

DNB
Markets

Conclusion

- Financing of first batch of SETE rigs (eight rigs) said to be moving forward
- SETE said to look into the opportunity to charter rigs from the international market



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to make up for delays in the construction program. This would require approvals from among others ANP. No indication of potential amount of rig demand.

- Should Petrobras need additional rig capacity due to SETE delays, we would rather expect Petrobras (and not SETE) to go to the market and hire rigs, as day-rates have come down recently. It should be noted that Petrobras is already in the market looking for rigs and we do not expect any additional tenders from Brazil near-term.

What's new

Update on SETE financing and possibility to charter rigs from others

Our analysis

1. **SETE financing.** News reports suggest that SETE is set to secure financing of its first batch of rigs from BNDES this week for a total of USD 5bn. The first batch is to consist of eight rigs, three being built at Jurong, two at EAS, two at Keppel FELS and one at Enseada. SETE is in total building 29 rigs and financing of the remaining rigs is still under negotiations. Due to financial challenges SETE has been late with payments to shipyards in recent months. In addition to this, SETE is also reported to be in discussions over additional short-term bridge financing.
2. **Looking to charter rigs.** Another news report also suggests that SETE is looking into the opportunity to charter rigs in the international market as construction of their own rigs is delayed. The article does not indicate how many rigs SETE potentially is looking for or duration. However, it notes that such a move would require approval from ANP (local regulator) as it would result in challenges related to the local content requirements. It also says that Petrobras would need to approve this.
3. **What we think could happen.** We continue to believe that several of the SETE rigs will struggle with its construction and that multiple rigs will be delayed. Our view is that Jurong (7 rigs) and Keppel (6 rigs) appears to perform more or less as planned, while other yards are delayed. Hence multiple of the 29 rigs are likely to be delayed and this might result in Petrobras being required to bridge the delays by chartering other rigs. However, there are multiple factors that impact Petrobras rig demand; Among others drilling time has improved significantly in pre-salt and production rates have been higher than expected, both factors resulting in less demand for rigs. Day-rates in the international market have now dropped well below the rate level at the SETE contracts. Hence, it would in our view make more sense for Petrobras to charter rigs directly in the market themselves and benefit directly from low rates, rather than having SETE to do so and put rigs to work at the original SETE day-rates. Petrobras already has two tenders in the market for UDW rigs and channel checks have suggested that these might be to compensate for delays in the SETE program.

Best
regards

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